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C O N F I D E N T I A L SECTION 01 OF 03 DAMASCUS 002504

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TAGS: [ECON](#) [EFIN](#) [EINV](#) [SY](#)

SUBJECT: CENTRAL BANK, COMMERCIAL BANK OF SYRIA AND FINANCE  
MINISTRY AT ODDS IN FRACTIOUS BANKING SECTOR

REF: A. DMS 1217

- [1](#)B. DMS 2164
- [1](#)C. DMS 2063
- [1](#)D. 05 DMS 5285
- [1](#)E. 05 DMS 6131
- [1](#)F. 05 DMS 6544
- [1](#)G. DMS 2265

Classified By: Charge d'Affaires Stephen Seche, reasons 1.4 b/d

[1](#)1. (C) Summary: Contacts report a conflict for authority over the banking sector among the leaders of the Central Bank, Commercial Bank of Syria and the Ministry of Finance. The Central Bank is seeking to claim control of the banking sector and at the same time establish its own tools of monetary policy, but is facing resistance from the Commercial Bank of Syria, which is struggling to retain its central position in the country's banking industry in the face of US financial sanctions. In addition, the Ministry of Finance is seeking to limit the Central Bank's role and prevent any erosion in its own primacy over financial affairs. Contacts suggest that the often personal infighting weakens the chances for real reform of the sector, and further highlights the widespread lack of faith in the Central Bank's ability to assume the role of other central banks in the region. End summary.

[1](#)2. (C) With the Commercial Bank of Syria (CBS) losing its primacy due to US sanctions under Section 311 of the USAPATRIOT Act (ref A), some independent Syrian economists and private bankers are expressing a new urgency in their calls for the SARG to reform and consolidate the banking sector. These contacts state the CBS should be demoted from the role it has played since nationalization in 1965 as Syria's de-facto central bank, and forced to compete with the new private banks for public and private business. In addition, they argue, the Central Bank should cease its current primary function of financing SARG deficits under the direction of the Ministry of Finance and assume an independent, supervisory role over private banks and monetary policy. Contacts state that the reform proposals appear to be gaining some traction. The broad outline for consolidation of the banking sector is contained in the recently passed 10th Five-Year Plan (ref B), which some contacts helped draft. Further, the SARG has announced its intention to issue treasury bills before the end of 2006 that would provide the Central Bank with a real tool to conduct monetary policy, as well as licensing foreign exchange houses

to expand Syrians' legal access to hard currency.

13. (C) Contacts are concerned, however, that sectoral reforms eventually may be blocked by a lack of political will to make bold changes to the status quo. The general managers of the private banks state that the sector lacks clear leadership and therefore predictability, and that there are too many different ministries involved in the sector, each trying to assert some degree of oversight. George Sayegh, General Manager of Bank of Syria and Overseas, stated that his balance sheet must be countersigned by the Prime Minister and the Ministers of Finance and Economy and Trade before they can be published. Contacts further contend that the sector is captive to competing political interests among its major players, and that Minister of Finance Mohammad Hussein, General Director of the CBS Dureid Durgham, and Governor of the Central Bank Adeeb Meyaleh are all jockeying for authority and the ability to shape the sector's future.

Central Bank Governor Vying for Authority...

14. (C) Contacts state that Meyaleh is working actively to increase his personal authority and the independence of the Central Bank. He has increased the number of reports that private banks must submit to the Central Bank in order to cement the chain of command (ref C), and recently reached out to the Jordanian Central Bank Governor through the newly opened Arab Bank Syria to build his regional credentials. Contacts suggest that he is trying to increase his bank's authority at the expense of both Hussein and Durgham. In what European Commission (EC) contacts describe as a snub to Hussein, Meyaleh recently refused to participate in a workshop on public bank reform and capacity-building that was sponsored by the Ministry of Finance and the European

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Investment Bank (EIB) because he felt that the Central Bank should have played a more prominent role in the workshop's planning. Basil Hamwi, General Manager of Bank Audi, stated that Meyaleh considers the CBS to be a rival bank and has made no move to provide the CBS with access to the international financial system through the Central Bank or help facilitate its transactions. Hamwi added that although Meyaleh has said that he personally disagrees with the US sanctions against the CBS, he hopes the sanctions will weaken it so that the Central Bank can become the dominant bank in the country.

15. (C) Meyaleh reportedly has the support of President Asad, contacts assert, which gives him clout despite the fact that he is not a member of the Ba'ath Party and lacks deep ties to the regime (ref D). Contacts state that he appears to be riding a wave of influence due to what most interlocutors consider the Central Bank's successful intervention in support of the Syrian Pound (SYP) (ref E). Most contacts, however, have little faith in Meyaleh's ability to lead the Central Bank. Contacts in the EC, who have instituted a number of programs to build the bank's capacity, describe Meyaleh as a self-promoter who lacks technical knowledge, vision, and management skills. They assert that the EC Mission's leadership is beginning to view Meyaleh as an obstacle to banking reform. Even those among Syrian interlocutors who know and like him state that Meyaleh is more of a theoretician than a manager. Contacts who claim inside knowledge of the Central Bank's intervention on behalf of the SYP state that Meyaleh was fickle in his management of the process and displayed a poor understanding of currency issues. Basil el Haffi, a self-proclaimed close friend of Sahloul, aka Abu Rafiq, the black-market money changer who allegedly managed the Central Bank's intervention, described one exchange toward the end of the crisis in which Meyaleh demanded Sahloul increase the rate of intervention over complaints from those more expert that a precipitous change in the currency's value would disrupt trade. A chastened Mayaleh allegedly returned later the same afternoon ordering Sahloul to stop the intervention altogether without

explaining his 180-degree change, Haffi reported. The currency immediately lost value the next day (ref F).

... While Riding a Weak Horse

¶6. (C) Reflecting both Meyaleh's poor leadership and the years of neglect playing a secondary role to the CBS and the Ministry of Finance, contacts complain that the Central Bank lacks the facility to perform the core functions of a central bank. An International Monetary Fund (IMF) senior economist stated that the Fund has expressed grave concerns about the Central Bank's current lack of skills and capacity, specifically noting a perceived lack of political will to oversee the private banking sector according to international standards. Abdul Kadr Housrieh, a partner with Ernst & Young Syria and an informal advisor to the Deputy Prime Minister for Economic Affairs, stated that the Central Bank also lacks a working Consumer Price Index (CPI) or the trained staff to update it, and therefore has no ability to stabilize prices or accurately set interest rates. In addition, contacts state that the bank has no monetary policy per se, instead controlling money supply and the exchange rate by manipulating the black market.

¶7. (C) Contacts among private bankers further state that the Central Bank currently has no mechanism to facilitate inter-bank transfers, which historically have been the responsibility of the CBS. Ali Deeb Zataar, General Manager of Arab Bank Syria, stated that in an effort to avoid interfacing with the CBS due to Section 311 sanctions, Arab Bank has attempted to conduct inter-bank transfers for trade finance through the Central Bank. Zataar stated, however, that due to the Central Bank's lack of basic infrastructure, he faces high transaction costs and risks in completing even simple transactions. In order to transfer money for trade finance through the Central Bank, Zataar has to physically transport cash to the Central Bank to initiate a transfer, and his ability to complete the transaction often requires Meyaleh's personal intervention. Zataar further stated that as a result of these difficulties, he has been compelled to send cash to other banks in bulk in his staff's unarmored, personal automobiles.

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The CBS fights to Retain Dominance...

¶8. (C) Despite Meyaleh's moves to increase his authority at the expense of the CBS, contacts say that Durgham is resisting any change and is working hard to maintain the CBS's dominant position. The CBS remains Syria's largest bank, holding most of the country's foreign accounts and the majority of its foreign reserves. In an attempt to emphasize the CBS's vitality, Durgham announced record profits last year, although most contacts claim that this may be more hype and accounting tricks than reality. He recently has used public events to try and lure private sector clients to the CBS by emphasizing improvements to its products and services, while alternately making it more difficult for existing customers to leave the bank by increasing the commission it charges for cash withdrawals. Contacts say that Durgham is searching for ways to keep the bank connected to the international financial system through third-party institutions. Bassel Hamwi, General Manager of Bank Audi, stated that Durgham called him about running CBS business through Bank Audi. Hamwi declined the request, he assured us, but added that Durgham is approaching the other private banks who may accept the offer given the volume of business that the CBS could provide.

¶9. (C) Durgham's efforts to keep the CBS dominant depend upon continuing political support from the Minister of Finance, contacts suggest. Durgham still has that support, although its depth is unclear since most people involved in the sector state that his personal relationship with Hussein is poor. In addition, Durgham's father Ahmed was removed from the

Ba'ath Regional Command during the June 2005 reorganization of the Ba'ath Party leadership, which also weakened Durgham's position. All of this may explain why, to date, he has been conspicuously alone in his public efforts to contain the fallout from Section 311 sanctions.

... But Authority Rests with the Minister of Finance

¶10. (C) Most contacts state that Hussein currently is the final arbiter on financial issues and is attempting to consolidate control over all aspects of the banking and monetary sectors under the Ministry. He heads the economic bureau of the Ba'ath Party's Regional Command, which gives him access to President Asad and an increased ability to influence the country's economic policy. Hussein reportedly does not like Meyaleh personally, and is attempting to control the development of the private banking sector. Apparently showing his willingness to take any opportunity to undercut Meyaleh, contacts state that Hussein recently overruled the Central Bank Governor and limited the amount Syria's private banks could invest in new private insurance companies, even though most contacts believe that the decision was short-sighted and bad for the sector (ref G). In addition, Hussein allegedly is considering allowing SARG entities to own up to 25% of new private banks, which contacts fear would provide the Ministry with greater control over the sector.

¶11. (C) Comment: The general consensus among contacts is that the banking and monetary sectors lack leadership and direction. The seeming zero-sum contest among the principals may be an inevitable by-product of the regime's "divide and rule" management style. Minister of Finance Hussein currently is allied with CBS Director General Durgham against Meyaleh at the Central Bank in the struggle for control of the banking sector, but Hussein's support appears to be conditional and limited by his latent personal dislike of Durgham. This leaves Syria in the unenviable position of needing to undertake reforms while its key financial institution is in decline under the pressure of Section 311 sanctions, and before any other institution is capable of filling the ensuing vacuum.  
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